

STATE APPROPRIATION GROWTH

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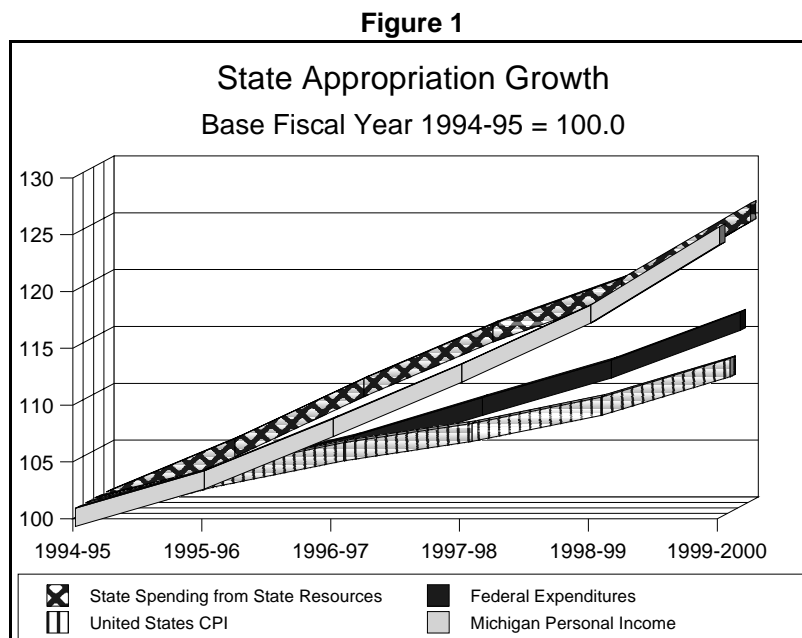
During the past eight years the performance of the Michigan economy outpaced the expectations of all economic forecasters. Increases in State employment levels, record levels of automobile sales, and modest increases in inflation all combined to move the State's economy forward since 1992. This robust economic growth also translated into very good news for the State budget. The economic growth resulted in increased levels of State tax collections, which provided the Governor and the Legislature with many opportunities regarding State budget policies. The path chosen by the Governor and the Legislature for the State budget, in recent years, has involved a combination of reductions in State taxes and increases in State appropriations. This article reviews the recent trends in State appropriations from an overall budget perspective and from trends in specific appropriation areas.

While the State's economy has grown for the past eight years, the appropriation data that are reviewed in this article only cover the past six years. During fiscal year (FY) 1993-94 the State, through a constitutional amendment approved by the voters, reformed the method of financing the operation of K-12 public schools in the State. This constitutional amendment increased the level of State appropriations to K-12 school districts while reducing the use of local property taxes to fund schools. This change provided a large increase in the level of State appropriations beginning in FY 1994-95. As a result, any comparison of State appropriations before FY 1994-95 with State appropriations after FY 1994-95 leads to misleading conclusions. Therefore, the appropriation data reviewed in this article are for the period FY 1994-95 through FY 1999-2000.

Table 1 provides a summary of State appropriations for the period FY 1994-95 through FY 1999-2000. The table presents appropriation data in terms of Adjusted Gross appropriations, State Spending from State Resources appropriations, and General Fund/General Purpose (GF/GP) appropriations. Over this five-year period Adjusted Gross appropriations increased by 28.5%, State Spending from State Resources appropriations increased by 25.5%, and GF/GP appropriations increased by 17.5%. The fact that Adjusted Gross and State Spending from State Resources appropriations increased faster than GF/GP appropriations over the time period results from the impact of the substantial growth in Federal revenues on Adjusted Gross appropriations, and the impact of the growth in State Restricted revenue sources, such as tobacco settlement funds, on State Spending from State Resources appropriations. In addition, the State tax reductions enacted over this time period have been structured to affect State GF/GP revenues almost exclusively.

Table 1 State Appropriations by Fiscal Year (millions of dollars)						
Fiscal Year	Adjusted Gross	Percent Change	SSSR*	Percent Change	GF/GP	Percent Change
1994-95	\$27,523.5	---	\$19,593.2	---	\$8,176.4	---
1995-96	28,493.9	3.5%	20,521.9	4.7%	8,449.4	3.3%
1996-97	29,656.5	4.1%	21,552.2	5.0%	8,369.1	(1.0)%
1997-98	31,470.0	6.1%	22,493.6	4.4%	8,735.1	4.4%
1998-99	33,160.3	5.4%	23,276.8	3.5%	9,415.0	7.8%
1999-2000	35,401.4	6.8%	24,579.0	5.6%	9,607.7	2.0%
Five-Year Growth		28.5%		25.5%		17.5%
Source: Senate Fiscal Agency			*SSSR = State Spending from State Resources			

In order to bring some context to the growth in State appropriations, [Figure 1](#) provides a graphic summary of the growth in State appropriations versus the growth in Federal government expenditures, Michigan personal income, and the rate of inflation, as measured by the United States consumer price index over the same five-year period.



Over this period Federal government expenditures increased by 16.3%, Michigan personal income increased by 24.8%, and inflation increased by 12.7%. Therefore, while the growth in State appropriations exceeded the growth in inflation and the growth of the Federal budget, State appropriations over this time period increased at roughly the same level as the growth in Michigan personal income.

While overall State appropriations, as measured by the growth in State Spending from State Resources, grew by 25.5% over the five-year time period, the growth in appropriations within specific areas of the budget over this period varied significantly. [Table 2](#) provides a summary of the growth in State Spending from State Resources appropriations for the period FY 1994-95 through FY 1999-2000 by major program area. The growth in appropriations by program area ranges from a high of 130.4% for capital outlay programs to a low of 5.9% for resource management programs. Areas of the budget that exhibited above-average growth in appropriations over this time period included economic development and job training and transportation. The large appropriation categories of K-12 education, higher education, corrections, and revenue sharing all grew at a rate approximately equal to the 25.5% overall growth in appropriations. The major area of the State budget that exhibited growth considerably below the average was the human services area. This slower growth in human services spending over the time period is explained by a large drop in welfare caseloads that directly affected State appropriations in such programs as Medicaid and the Family Independence Program. This drop in caseloads offset the spending increases in these programs resulting from higher medical costs.

While reviewing the growth in State appropriations by major budget area provides an interesting picture of the recent trends in the State budget, it is also important to note that in some budget areas the amount of the appropriations made by the Legislature in each year is significantly influenced by the number of people served by the appropriation. This is especially true for the appropriations that support the Department of Corrections, K-12 School Aid, community colleges, and universities.

Table 2
Categories of State Appropriation Growth - State Spending from State Resources
(millions of dollars)

Spending Category	FY 1994-95	FY 1999-2000	Difference	Pct. Change
K-12 Education ¹⁾	\$7,966.6	\$10,025.4	\$2,058.8	25.8%
Human Services ²⁾	3,870.8	4,276.8	406.0	10.5%
Higher Education ³⁾	1,629.8	2,079.3	449.5	27.6%
Transportation	1,429.2	1,984.0	554.8	38.8%
Corrections	1,208.2	1,531.3	323.1	26.7%
Revenue Sharing	1,170.0	1,470.5	300.5	25.7%
Resource Management ⁴⁾	690.5	731.0	40.5	5.9%
Econ. Dev. & Job Training ⁵⁾	327.9	562.9	235.0	71.7%
Capital Outlay	204.3	470.7	266.4	130.4%
Public Protection ⁶⁾	314.5	385.2	70.7	22.5%
Judicial Branch	173.3	221.8	48.5	28.0%
Legislative Branch ⁷⁾	126.3	151.3	25.0	19.8%
All Other	481.8	688.8	207.0	43.0%
Total Appropriations	\$19,593.2	\$24,579.0	\$4,985.8	25.5%

¹⁾ Includes K-12 Education and Department of Education. ²⁾ Includes Community Health and Family Independence Agency. ³⁾ Includes Higher Education and Community Colleges. ⁴⁾ Includes Agriculture, Natural Resources, Environmental Quality, and Environmental and Natural Resources Bond. ⁵⁾ Includes Career Development, Consumer and Industry Services, and Strategic Fund Agency. ⁶⁾ Includes State Police and Military Affairs. ⁷⁾ Includes Legislature, Auditor General, and Library of Michigan.

Source: Senate Fiscal Agency

In all of these budget areas, a review of State appropriations per person provides another method of viewing budget priorities. [Table 3](#) provides a summary of these data for the FY 1994-95 through FY 1999-2000 period. The data show several interesting trends. First, in spite of the overall recent growth in appropriations for the Department of Corrections, the appropriation per prisoner grew by a very modest 3.7% over this time period. This appropriation growth has forced the Department of Corrections to develop cost saving initiatives. These initiatives include the extensive use of double bunking of State prison inmates and the recent trend toward the privatization of certain services including health care in the prisons. The second trend apparent from [Table 3](#) is that State appropriations per full-time student for the K-12 schools, community colleges, and universities all increased at levels near or in excess of the 12.7% increase in inflation over the same time period. Community colleges have seen their State appropriation per full-time student increase by 23.7%, universities by 11.5%, and the K-12 schools by 16.0%.

Table 3 Growth in State Appropriations Per Prisoner and Student							
Department of Corrections				Community Colleges			
Fiscal Year	Approps. (Millions)	Prison and Camp Population	Approps. Per Prisoner ¹⁾	Fiscal Year	Approps. (Millions)	Full-Time Students	Approps. Per Student
1994-95	\$1,208.2	38,854	\$31,095.9	1994-95	\$251.6	117,187	\$2,147.0
1995-96	1,302.1	40,182	32,405.1	1995-96	253.0	110,949	2,280.3
1996-97	1,336.0	41,356	32,304.9	1996-97	262.2	107,970	2,428.5
1997-98	1,374.1	43,821	31,357.1	1997-98	275.0	107,501	2,558.1
1998-99	1,417.6	44,500	31,856.2	1998-99	282.0	109,700	2,570.6
1999-2000	1,531.3	47,484	32,248.8	1999-2000	297.2	111,894	2,656.1
Percentage Growth			3.7%	Percentage Growth			23.7%
K-12 School Aid				Higher Education			
Fiscal Year	Approps. (millions)	Student Mmbship.	Approps. Per Student	Fiscal Year	Approps. (millions) ²⁾	Full-Time Students	Approps. Per Student
1994-95	\$7,911.8	1,564,729	\$5,056.3	1994-95	\$1,268.1	206,321	\$6,146.2
1995-96	8,221.9	1,615,586	5,089.1	1995-96	1,308.1	207,704	6,297.9
1996-97	8,558.3	1,646,747	5,197.1	1996-97	1,379.2	209,417	6,585.9
1997-98	9,307.4	1,671,015	5,569.9	1997-98	1,443.0	214,167	6,737.7
1998-99	9,495.1	1,688,814	5,622.3	1998-99	1,482.7	223,724	6,627.4
1999-2000	9,957.6	1,698,419	5,862.9	1999-2000	1,562.0	227,993	6,851.1
Percentage Growth			16.0%	Percentage Growth			11.5%
1) Appropriations per prisoner is a measure of total departmental appropriations divided by prisoners in State facilities. The Department of Corrections is also responsible for the funding and supervision of approximately 60,000 additional individuals on probation or parole.							
2) Reflects appropriations for university operations only.							
Source: Senate Fiscal Agency							

Conclusion

The robust economic growth in Michigan over the past eight years had a significant impact on the overall State budget. The economic growth fueled State revenue collections, which resulted in the opportunity for the Governor and the Legislature to enact a series of State tax reductions at the same time as providing for growth in overall State appropriations. State appropriation growth over the period FY 1994-95 through FY 1999-2000 roughly equaled the growth in the income of Michigan residents. The fact that the State implemented significant State tax reductions at the same time that State appropriations have continued to grow speaks volumes as to the strength of the recent economic expansion in the State.